Managing Through Tough Times

How nonprofits can successfully navigate challenging economic times
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Eight Steps for Managing Through Tough Times

If there is one thing nonprofits have in common, it’s that at some point they’re likely to face a version of tough times. Maybe the trigger will be a sector-wide challenge, such as an economic recession, or a shock distinctive to the fields or locations the nonprofit serves. Or perhaps it will be an organization-specific hardship, such as the loss of a major funder’s support. No matter the cause, tough times force hard choices.

Tough times can also linger. It takes the nonprofit sector 1.5 times longer than the for-profit sector to recover from a recession, according to the Nonprofit Finance Fund (NFF), which conducts the State of the Nonprofit Sector survey (nff.org/learn/survey). “With recessions, organizations take a financial hit, but it is a psychic hit on the sector—we lose talent and then we lose connections,” warns Sandi Clement McKinley, vice president at NFF.

So what to do? Not surprisingly, there are no easy, or even particularly novel, answers to that question. But learning from what others have done before in the face of financial crises can be extremely useful. To that end, we’ve collected insights and advice from our clients, other nonprofit leaders and experts, and our own leadership—distilling them into a set of eight steps for managing through tough times. Note that although we crafted this advice with tough times in mind, the truth is these practices will help keep your organization in shape any time.

It’s critical to take each of these steps with an eye towards how decisions could differentially affect people of color—both inside and outside your organization. Building the better world that we are all working towards requires that social sector actors deliberately embed racial equity considerations into their decisions, and tough times are not an excuse to let that focus slip.

For more resources on getting and keeping your organization in shape to endure tough times, visit “Managing Through Tough Times” (www.bridgespan.org/special-collections/managing-through-tough-times).

1. Act quickly, but not reflexively, and plan contingencies.

Tough times call for immediate action: managing costs aggressively; doing away with nice-to-haves (not only because they are easily expendable but because of the signal it sends to the entire organization); and holding off on new initiatives. But even before your organization is feeling any pain, explicit contingency plans are a must. Keeping
a pulse on emerging developments in your field will help you keep an eye out for potential roadblocks ahead.

Always plan for the worst, recognizing that troubles may unfold in fits and starts. Having Plans B, C, and D in place and knowing when to move to each can mean the difference between pacing your organization through a marathon and a slippery slide into financial and organizational exhaustion.

Many organizations start by asking themselves what they would do if they had to cut their budgets by 10 percent, 20 percent, and 30 percent. They also specify the tripwires that would cause them to move from Plan A to Plan B, C, or D: an X percent fall in fee-for-service revenues, for instance, or a Y percent drop in donations or foundation funding, or a Z percent decrease in cash reserves.

A community-based after-school program with multiple sites, for example, might establish contingencies that call for renegotiating rents immediately; reducing staff and filling positions with volunteers as Plan B; consolidating one or two sites as Plan C; and consolidating to a core site as Plan D. Painful as each shift would be, both for clients and staff, the pacing signals clearly that the organization is doing all it can to preserve services and to keep the core of its mission alive.

2. Protect the core.

While the bad news is that financial constraints may mean you cannot pursue all of your current activities, the good—or at least the less bad—news is that not all of them are equally important in terms of impact. Now is the time to allocate your unrestricted funding and critical talent to the programs and services that have the greatest impact on those you serve. It is also the time to consider whether you need to cut back or discontinue less critical activities—and to ask yourself, “If not now, when?”

Simply identifying which programs are highest impact is not enough. You also have to be mindful of where your discretionary dollars are currently going. (Program contribution analysis is a helpful tool here.) Programs that aren’t covering their costs (thus commanding discretionary-dollar subsidies) deserve even more critical scrutiny—especially if they are less closely aligned with your organization’s mission and impact. Decisions about programing cuts also have to be made with racial equity implications in mind to ensure that people of color are not disproportionately burdened.

Your organization’s leadership may already be clear about what the most important priorities are. But if they aren’t, we strongly recommend bringing key staff and board members together to wrestle with three critical questions that can help to create that clarity:

• What results are we trying to achieve, and for whom?
• How do we achieve them?
• What does that really cost?

Until everyone has agreed on the answers to these questions, it will be hard to develop a real consensus around which programs and activities are truly core and which ones, however reluctantly, can be let go.

3. Identify the people who matter most and keep that group strong.

Every organization has a small group of people who are critical to its success—current and future. Perhaps it’s because they’re strong leaders, or they bring distinctive expertise, or they’re culture carriers. If you were to name these critical individuals, who would they be? Odds are not all of them are your direct reports. These decisions about who “matters most” must be viewed through a diversity, equity, and inclusion lens, to ensure a variety of identities and viewpoints infuse your organization’s vision and work. One helpful tool is Race Matters Institute’s Racial Equity Impact Analysis, which includes five racial equity questions for weighing policy and personnel decisions.²

These are the people who should be receiving the lion’s share of your attention, so that they can feel like allies and partners in keeping the organization focused on its mission and pulling through. This is a time for shared goals and creative solutions, not individual priorities and business as usual.

Getting clear about who your most critical staff are also will stand you in good stead should layoffs become necessary. It won’t make the process less painful, but it can reduce the odds that the layoffs will compromise the organization’s current and future effectiveness.

4. Stay very close to your key funders.

The individual donors and organizations that know you best are the ones that are most likely to help you navigate a downturn. Remember that you don’t have to wait for your key funders to call you. You can—and should—use this as an opportunity to pick up the phone and call them: let them know what you’re seeing and how you plan to respond; to explain the choices you’re making or expect to make; to ask whether they can be equally transparent with you about what they expect their payouts or donations to be over the next six to 18 months. (See “A Tough Times Call to Action for Funders: Be Even More Attentive to Leaders of Color” on page 6.)

“Know where your key funders’ priorities are and how your nonprofit fits in,” advises Maya Winkelstein, executive director of Open Road Alliance, which offers emergency funding for impact-threatening roadblocks during project implementation. “If you’re not sure where you sit, ask. Seeing your work through your funder’s eyes can help nonprofits to better understand when their funding is at risk.” In fact, a nonprofit’s financial volatility is sometimes inadvertently caused by changes in funder strategy or disbursement delays. (See “How Funders Can Avoid Inadvertently Triggering Tough Times” on page 7.)

You might also consider asking your existing funders to talk with their peers on your behalf. Downturns are usually a time to be cautious about trying to establish new funding relationships. But a referral from a trusted source might induce others to co-invest, at a time when they wouldn’t willingly do so on their own.

As a general rule, work to free up as much funding as possible for your highest-priority activities. You could try to do this by renegotiating the guidelines on restricted grants. It’s also worth taking the time to analyze your sources of revenue and to categorize each according to whether it is “in the bank,” committed, fairly certain, or at risk. Such analysis will allow you to think through more nuanced financial scenarios over the coming year.

5. Shape up your organization.

Beyond helping you stretch limited funds, belt-tightening changes can make your operations more efficient and your impact greater in enduring ways. Similarly, tough times can be the catalyst for taking advantage of low- or no-cost opportunities to improve internal operations and make it easier for people to work smarter—and not just longer and harder.

For example, identifying the organization’s critical decisions and then being explicit about whose responsibility they are can dramatically reduce the amount of time spent on inconclusive discussions (and the attendant frustration). Establishing formal or informal linking mechanisms, such as cross-functional teams, can make it easier for people to coordinate their efforts and share knowledge. Clarifying and refining essential work processes will allow everyone to take advantage of best practices and avoid reinventing the wheel.

Finally, if it’s a recession that’s sparked the tough times, it ironically may be the moment to add to your leadership team—bringing someone onboard with skills you previously might not have been able to access. Chief financial officers are a prime example. In the face of huge demand for financial talent, nonprofit organizations typically have great difficulty filling this position. But, in an economic downturn, a less robust for-profit job market can create hiring opportunities for nonprofits. Sticking to your hiring standards and screening process is important, though, to avoid bringing someone onboard who is merely looking for a short-term stop while the economy recovers.

6. Collaborate to reduce costs and expand impact.

This is the time to take some classic advice to heart: don’t go it alone. Sometimes the most innovative solutions come from unexpected partnerships. Could you combine operations with another nonprofit provider to lower back-office costs, create economies of scale, or share best practices? Could you consolidate purchasing with another organization? Might you even be ready to merge with or be acquired by another organization? There are many opportunities across the collaboration spectrum.3

Collaborations, of course, require time and effort to make work—and some fail despite that investment—so take care to weigh the likely costs, benefits, and risks before proceeding. And if you are considering the formal M&A route, keep in mind that struggling nonprofits typically are not attractive to acquirers. Better to start thinking about this option before tough times are upon you.

7. Involve your board.

Now more than ever, your board needs to be both well informed about the organization’s financial health and a central part of the planning process. In times of financial hardship, everyone expects to step up to the plate. As the organization’s fiduciary trustees, your board members are very much part of the “everyone.”

Board members can make important contributions in multiple ways: by providing experience and expertise from other domains and sectors; by helping to pressure test your assumptions and plans; and by playing an especially active role in the organization’s fundraising efforts. They may also be able to provide focused operational support to complement staff efforts or to fill a gap if staff must be laid off.

During the toughest times, board members should expect to be called upon. They should also expect that what they will be called upon to do will be well considered and appropriate. Effective work on their part, therefore, will likely require thoughtful and tactful management, not only on your part but also on that of your board chair.

8. Communicate openly and often.

Leading an organization through tough times calls for open and frequent communication from the top. People need to know that leadership has a handle on the problem and a plan to address it. They want to know where they stand, what the organization’s prospects are, and what they can do to help. Develop consistent talking points for staff and your board to help manage perceptions.

Leaders who have weathered past downturns find such transparency is one of the best ways to keep teams engaged and enthusiastic—focused on the needs of the people they are serving and not on the organization’s woes. Here, too, small gestures count: rewarding with frequent praise when staff redouble efforts and tighten belts; serving as a role model in reducing a non-essential expense, or rolling up your sleeves to fill a gap on the front line. Remember that there is a world of difference between reactive pessimism and hard-headed determination. People will look to the leader who sees and conveys the brighter future.

In Conclusion

Steps taken to manage through tough times tend to endure. Making the wrong choices—ranging from across-the-board cuts that weaken everything you do, to fostering mistrust and fear by failing to communicate—will have long-term consequences. But so will making the right choices: reinforcing the organization’s core values and mission focus; identifying leaner ways to execute business as usual; partnering with other nonprofits to
be more effective; getting in the habit of making hard choices; becoming increasingly
strategic taking new things on.

The road to financial stability for nonprofits is a marathon not a sprint. How we run it will
make all the difference to whether—and in what shape—our organizations are able to
cross the finish line.

A Tough Times Call to Action for Funders: Be Even More Attentive to
Leaders of Color

Research has repeatedly shown that bias-related barriers to capital result in leaders of
color having weaker funder networks, making their organizations among the sector’s most
financially vulnerable. Funders, therefore, have a special obligation to grantees led by people
of color during tough times.

“There is a starting point of imbalance in funding streams and funding amounts going to people-
of-color-led organizations,” says Shawn Dove, CEO of the Campaign for Black Male Achievement
(CBMA). “The feeling of scant dollars is very real. Forget ‘managing through tough times’—
leaders of color are often already operating in tough times.” Dove has experience as both a
grant seeker and a grant maker as he launched CBMA at the Open Society Foundations where
he spent seven years before CBMA became an independent organization.

The Building Movement Project reports in its Race to Lead study that 41 percent of nonprofit
leaders of color consider “the lack of relationship with funding sources” as one of the main
challenges of their job, compared to 33 percent of their white counterparts.1

As part of Bridgespan’s supplement on big bets for the Stanford Social Innovation Review
(SSIR), Cheryl Dorsey, president of Echoing Green and Bridgespan board member, noted
the “multiple, overlapping, systemic barriers” that leaders of color face when it comes to
funding.2 Dorsey specifically flagged the “like funds like” pattern as a significant barrier, with
funders being more likely to invest in people who share the same ethnic, educational, and
career backgrounds.

Of course, any ongoing funding challenges faced by nonprofit leaders of color are only
compounded if the entire sector is also taking an economic hit. This reality can make tough
times even tougher for these nonprofits.

What can funders do to help? Simply put, double down on the tough-times supports
for grantees led by people of color. Stay in close touch, so you know when challenges
emerge and what shape they take. When tough times come, act quickly: deploy your own
resources to help them navigate financial hardships, and aggressively tap your connections
to help broaden the base of support. Leaning in like this can make all the difference in
the organizations’ ability to continue their critical role in driving the transformative social
change we all seek.

1 Sean Thomas-Breitfeld and Frances Kunreuther, Race to Lead: Confronting the Nonprofit Racial Leadership

2 Cheryl Dorsey, “Hacking the Bias in Big Bets,” Stanford Social Innovation Review, February 2019,
https://www.bridgespan.org/insights/library/big-bets/unleashing-big-bets-for-social-change/hacking-
bias-in-big-bets.
How Funders Can Avoid Inadvertently Triggering Tough Times

Unfortunately, sometimes it is a nonprofit's own funder that triggers tough times. "Nonprofits don’t need a recession to fall on hard times. All they need is a funder to change their pay schedule from Q1 to Q4, and that can mean they're no longer able to survive," says Maya Winkelstein, executive director of Open Road Alliance (ORA).

ORA considers itself a nonprofit "emergency room." It offers short-term loans and grants to nonprofits facing unexpected financial hardships that threaten impact. Funder-created obstacles are the most common reason applicants reach out for its support, accounting for nearly half of the triggers ORA documented in its recent analysis of five years of applications.¹ The most frequent types of funder-related causes were disbursement delays and changes in funder strategy. Although funders often aren’t intentionally creating these obstacles, they nevertheless are disrupting their grantees' work and in doing so threatening the impact of their grant-making.

To ease the disruptions, funders can increasingly weigh how their decisions (big and small) will affect grantees' financial health. For example, if a grantee's cash flow is tight and its reserves are small or non-existent (not an uncommon scenario), even minor delays in grant payments could cause great hardship. "We tell foundations that when it comes to financial decisions, if something would be an inconvenience for you then it would be a crisis for your grantee," says Winkelstein.

As for changes in funder strategy, funders can help prepare grantees by communicating openly and being transparent about potential shifts—using clear and direct language. A funder’s words matter—reassuring a grantee that pending changes in strategy will not affect them might have devastating results if final decisions shift direction.

Beyond these approaches for mitigating harm caused by their own actions, funders can also put themselves in a better position to help grantees navigate tough times caused by other factors. To avoid the philanthropic emergency room all together, funders can take preventative measures in the form of risk management. One helpful practice here is to include contingency funds in annual grant-making budgets—allowing funders to more nimbly help grantees overcome the financial emergencies that are bound to happen between grant cycles.

More generally, Winkelstein would like to see the concept of risk increasingly baked into the grant-making process. Fewer than 20 percent of foundations currently budget for the unexpected, according to ORA. "If we don’t talk about what could go wrong, it implicitly creates the guarantee of a perfect project and false expectations," says Winkelstein. "The problem is, things happen unexpectedly all the time—that needs to be considered the norm.”

How Pressley Ridge Managed Through Tough Times

The “tough times” they faced

In 2013 Pressley Ridge committed to expanding its work with children and families in community-based settings. Previously, residential, or out-of-home, care had dominated the organization’s offerings, accounting for close to 70 percent of its programming. The organization’s leadership sought to bring more balance to that service mix, motivated by a belief that children should be with their families whenever possible. In its ensuing efforts, Pressley Ridge had success with serving children in their homes, but expanding that work was slow going. Despite increasing support nationally for the idea of children being served in community settings, funding flows still favored out-of-home care.

When the Family First Prevention Services Act (FFPSA) passed in 2018, out-of-home care was still a prominent part of Pressley Ridge’s work. FFPSA was the biggest change to the structure of federal child welfare finance since 1980. The bill aimed to prevent children from entering foster care by allowing federal reimbursement for mental health services, substance use treatment, and in-home parenting skill training. It also sought to improve the well-being of children already in foster care by providing incentives for...
states to reduce placement of children in congregate facilities (also called residential care). In practice this meant a major shift for child-welfare organizations, de-emphasizing residential care and emphasizing community-based services.

On the one hand, FFPSA provided the momentum Pressley Ridge needed to live into its goal of expanding its community-based work. But on the other hand, the organization still relied on the residential-care funding streams that FFPSA was projected to squeeze.

What they did

Pressley Ridge monitored child welfare trends in the lead up to the bill passing and ensured it was well-positioned when the shift from residential to community-based treatment occurred. Its leadership held annual strategic retreats with its board, inviting external speakers and discussing key trends in social services and beyond. CEO Susanne Cole also set up quarterly info sessions for board members and communicated with them regularly in between. This engagement helped the organization effectively navigate the changing landscape.

Through these efforts, Pressley Ridge decided to increasingly shift services to community settings while also reducing the number of residential facilities it operated. It would retain enough residential capacity to serve children who can’t remain at home given the extent of their challenges—preserving a continuum of care that spanned from intensive residential treatment to in-home supports.

Results

Pressley Ridge successfully transitioned from having close to 70 percent residential and 30 percent community-based programming to a 30:70 ratio.

Pressley Ridge School for the Deaf provides specialized education with a residential component for students who are deaf or hard of hearing and also have behavioral or emotional needs or are on the autism spectrum. (Credit: Pressley Ridge)
Advice for other nonprofits

Know the true costs of your program and make decisions about what to maintain and what to cut accordingly

“We have a policy that we won’t subsidize services. We take our programs and rank them by operating margin. If margins are less than 10 percent, we decide if we should discontinue the program or find a way to enhance the rate based upon our outcomes. We also look at programs that have higher operating margins, over 20 percent, and look at ways that we could replicate them. What about their design could we replicate? What about these programs better supports positive outcomes for children and families?”

If you are working with government funders, get involved at key points during the decision-making process to share your expertise

“Our perspective is that everyone wants to do the best for children. We look to where the key decision makers work—state-wide planning committees or county committees—to help inform the direction as a resource. We want to be viewed as a partner and resource in the problem-solving process as we assist with social issues in our communities. This sometimes means that we provide consultation even if we don’t expect to get a contract. This is why we exist—to build a better future for those struggling with complex issues.”

Be flexible if your core shifts over time; it may change as your beneficiaries’ needs do

“Pressley Ridge does not exist to provide services; we exist to meet the needs of kids and families in our communities. We stick to our core population but are flexible about the services we use to reach them.”
In the event you have to discontinue a program area, reassure staff that they are still valued by looking for ways that their skills can be used elsewhere in the organization.

“We closed a residential program a few years ago and the staff who worked there were worried about their future. We were able to use their skills in our home-based services—just transferring the place where they served children, but not losing the staff and their expertise.”

If you sense tough times coming, proactively communicate with your board, ideally through short, targeted messages.

“The messaging from the CEO should be: ‘here’s what’s coming, here’s what I’m concerned about, here’s what I think we need to do. Let’s discuss.’ I stick to short summaries highlighting the key points—instead of inundating them with long documents.”
How Prosperity Now Managed Through Tough Times

The “tough times” they faced

Prosperity Now had been diligent about preparing scenario plans to deploy should “routine” financial stresses emerge, but that mattered little when the political climate changed. “Every model we created had to be thrown out the window after the 2016 election,” admits Adnan Bokhari, CFO and COO of Prosperity Now. Federal contract revenue declined from $3 million to $500,000 or 80 percent.

As a result of the loss of federal contracts, Prosperity Now faced a $1 million deficit going into the 2018 fiscal year. It covered the gap by tapping previously restricted funds in its endowment, but its leadership knew they would again face a deficit in 2019 as federal contracts continued to decline. The organization needed to develop a new financial model that matched the economic realities of the times.

What they did

Prosperity Now created a four-pronged strategic approach to financial sustainability that consisted of raising more revenue, optimizing how it
deployed resources, reducing costs, and, as a longer-term solution, generating earned income. The organization was very deliberate in developing principles to guide its decision making in these areas:

1. Prioritize both mission and financial health
2. Prioritize staff
3. Exercise great care to ensure equity
4. Consider both today and tomorrow
5. Review costs and benefits
6. Pursue cuts that make significant financial difference

Prosperity Now also created contingency plans with specific trip wires and next steps. The organization ended up testing its plan in real time as a major funder decided to not renew its support for the following year. The team cut costs to make up the difference and refrained from filling positions when people left the organization.

Prosperity Now also conducted an organization-wide risk assessment to identify the top five risks it currently faced and would face in the future. Bokhari created a “growth monitor” system that the leadership team updated three times a year to determine if the organization is on track to meet its annual goals. “An enterprise risk framework was my initial ambition, but I realized the time commitment wasn’t feasible,” Bokhari explains. “The growth monitor is more of a quick ‘gut check.’ Leadership spends 30 minutes updating it once per quarter, and we were able to commit to doing that. With the right culture and leadership, this will help us home in on what we should be focusing on.”

Results

Prosperity Now was able to address a $2.8 million budget shortfall by creating strategies to raise $1.2 million in additional revenue, generate $0.8 million by optimizing resource deployment, and reduce costs by $0.8 million.

A grandparent is interviewed for The Resounding Resiliency of Grandfamilies project (https://prosperitynow.org/resources/resounding-resiliency-grandfamilies). (Credit: Prosperity Now)
Advice for other nonprofits

No one can do this alone

“The entire leadership team came together to solve this. The next tier of senior management was also engaged in execution of the strategies. The results are our successes—not of any one individual.”

Lead with the data and be persistent. The belt tightening needed to manage through tough times can be hard. Start with piloting new solutions to show that incremental changes are possible and potentially not as painful as initially believed

“I felt that I had to make this a priority, and it was really difficult. It took a long time. I first had to prove that there was even a problem and did so by sharing the current and projected financial numbers openly and consistently.”

Recruit allies in leadership, especially on the board

“Board involvement is key to making hard changes. It really helped to be able to say to the leadership team that either we do this or the board will do this for us. When we laid out those four strategies, one of the board members said that this is something we should be doing every year—and I agree!”

Proactively create systems and processes to identify emerging problems

“Leading efforts to react to tough financial times is a difficult and draining place to be in. Rather than having one person shoulder that by being the mechanism through which this information is delivered, organizations can create systems and processes to alert them if there’s a problem.”

Systematically focus on diversity, equity, and inclusion

“We review every spending cut, both individually and in the context of the larger set of cuts, to ensure that where reductions are made and who they affect is fair, free of bias, and balanced.”
Bridgespan’s “Managing Through Tough Times” resources were updated in 2019, with Maria Orozco, Cora Daniels, and Lauren Rourke as lead contributors.

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For more information, please visit Bridgespan’s Special Collection on Managing Through Tough Times at:
www.bridgespan.org/special-collections/managing-through-tough-times.